



COUNCILMEMBER DONNA FRYE

City of San Diego
Sixth District

MEMORANDUM

DATE: April 13, 2006

TO: Mayor Jerry Sanders
City Attorney, Michael Aguirre
Chief Financial Officer, Jay Goldstone
City Auditor, John Torell

FROM: Councilmember Donna Frye

SUBJECT: Revenue Projections and Annual Required Contribution

I received the April 10, 2006 Fact Sheet (attached) released by the Mayor regarding the ten elements of the proposed Financial Recovery Plan. While I am aware that more detailed budget information will follow shortly, the revenue projections (which are restated below) raise a number of questions.

	FY2006	FY2007	Diff. (% Change)
Property Tax	\$290.4 million	\$344.2 million	+ \$53.8 mil (+19%)
Sales Tax	\$144.1 million	\$234.9 million	+ \$90.8 mil (+63%)
T.O.T.	\$128.5 million	\$139.1 million	+ \$10.6 mil (+8%)
Other	\$301.0 million	\$267.8 million	- \$33.2 mil (-11%)
Subtotal	\$864 million	\$986 million	+ \$122 mil (+14%)

- What is the basis for the projection that sales tax revenues will increase by 63 percent (\$90.8 million)? What were the actual sales tax revenues for FY '05?
- What is the basis for the projection that property tax revenue will increase by 19 percent (\$53.8 million)? What were the actual property tax revenues for FY '05?
- The TOT revenue is projected to increase by 8 percent (\$10.6 million), a modest rate relative to the other two categories. What is the basis for that level of increase in tourism and hotel occupancy? What were the actual TOT revenues for FY '05?
- What revenues constitute the "other" category and why is it projected to decline by 11 percent (\$33.2 million)? What were the actual revenues for "other" in FY'05?
- The City Auditor and Comptroller's General Fund Revenue Status Report (Status Report) for the period ending February 24, 2006 shows General Fund TOT revenues as approximately \$67 million. The TOT revenue shown on page 2 of the

Fact Sheet shows TOT revenues for the FY'06 budget as \$128.5 million, increasing to \$139.1 million in the FY'07 budget. How and where is the other \$61.5 million in TOT accounted for in the city's current budget? (Attached is a copy of the revenue page from the Status Report.)

Annual Required Contribution (ARC)

- On pages 2 and 3 of the April 10, 2006 Fact Sheet, it states that, **"...the City's true pension obligation, including the Actuarially Required Contribution (ARC) should be fully disclosed to the citizens of this community."** Please define the term "Actuarially Required Contribution (ARC)", the calculations used to determine the "Actuarially Required Contribution", and the difference between the "Actuarially Required Contribution" and the Annual Required Contribution (ARC) as defined according to Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27.
- Additionally, the Fact Sheet states that, **"... the City will hire its own outside pension actuary to ensure that the ARC listed on the City's financial statements is in accordance with GASB principles."** When will the City hire its own actuary? Will the new actuary determine the amount of the Annual Required Contribution, and will the new actuary provide that information to the City Council *before* the adoption of the FY'07 budget?

The following two questions are for the City Attorney:

- If the City does not contribute the Annual Required Contribution according to GASB will this result in "deferring" contributions into the future and if so, is this legal under California State Law?
- If the City does not contribute the Annual Required Contribution and uses the money instead to fund other financial obligations is this then a loan from the pension trust and if so, is this legal under California State Law?

Thank you for your attention to this matter. I look forward to your response.

cc: Honorable City Councilmembers
President, SDCERS, Peter Preovolos
SDCERS Assistant Retirement Administrator, Bob Wilson
Independent Budget Analyst, Andrea Tevlin
Chief Operating Officer, Ronne Fromann



FOR IMMEDIATE RELEASE
April 10, 2006

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FACT SHEET

SANDERS ANNOUNCES REFORMIST & COMPREHENSIVE FINANCIAL RECOVERY PLAN FOR CITY

*10 Elements Address Chronic City Problems,
Will Bring About Fundamental Change*

By any definition, San Diego City government is in the middle of a fiscal and managerial crisis. Chronic issues have been unaddressed for years. The services and infrastructure upon which our citizens depend require immediate attention.

Mayor Jerry Sanders today announced the City's first ***Financial Recovery Plan***. Unlike the disparate and disjointed initiatives launched in the past, the Mayor is proposing a holistic and comprehensive solution that will serve as a virtual roadmap for the City to follow over the next three years. Most, if not all, of the 10 elements in the Mayor's Plan address chronic City problems that have gone largely ignored by past administrations. Virtually all of the problems addressed come with lengthy financial, legal and administrative histories. Mayor Sanders has begun the hard work of finding solutions for these chronic problems.

Here are the 10 elements of the Mayor's plan for fundamental change at City Hall:

Structurally Sound, Balanced Budget

For the first time ever, San Diegans will have a budget that they can understand.

Mayor Sanders' reformist budget includes a number of structural changes that contrast positively with the past. Elements include:

- **True revenues and expenses will be reflected in the City budget.** In the past, city managers have shaved projected revenues so that they couldn't be spent by the City Council at budget time, and purposely underestimated expenses to balance that budget. Those practices stop this year.

General Fund Revenues:

REVENUE SOURCE	FY06 BUDGET	FY07 BUDGET
Property Tax	\$290.4 million	\$344.2 million
Sales Tax	\$144.1 million	\$234.9 million
T.O.T.	\$128.5 million	\$139.1 million
Other	\$301.0 million	\$267.8 million
Pension Obligation Bonds	\$0	\$374 million
TOTAL ESTIMATE (AS OF 4/9/06) MAY BE FINE-TUNED FOR 4/14	\$864 MILLION	\$1,360 MILLION

- Police and Fire Department overtime budgets will be fully funded.
- 270 General Fund Phantom or “supplemental” positions (as they are known in City parlance) will be incorporated into the budget. This will cost \$33.7 million.
- Funding deferred maintenance.
- Funding reserves.
- A requirement that enterprise and special funds be audited every three years to ensure all fees paid into those funds are used for the proper purpose, including personnel.
- And a reduction in the size of the annual budget report down to one volume so that the public can understand the document.

Pension Funding Plan

Over the course of the next three fiscal years (FY06, FY07 and FY08), the Mayor is proposing to infuse the Retirement System with **\$856.1 million in cash** in order to reduce the \$1.4 billion deficit.

FISCAL YEAR	FUNDING RECOMMENDATION	AMOUNT		
FY06	Tobacco Securitization	\$100 million		
	Remainder of Employee Pickup	\$7 million		
	FY06 Sub-Total	\$107 million	\$107 million	68% funded
FY07	Normal Costs	\$85.8 million		
	Pension Obligation Bonds	\$300 million		
	Employee Leverage POB	\$74 million		
	FY07 Sub-Total	\$459.8 million	\$459.8 million	79.15% funded
FY08	Normal Costs (estimated)	\$89.3 million		
	Pension Obligation Bonds	\$200 million		
	FY08 Sub-Total	\$289.3 million	\$289.3 million	83.72% funded
	TOTAL	\$856.1 million	\$856.1 million	

The Mayor will establish 85% as the funding ratio goal for his administration.

Mayor Sanders believes that the City’s true pension obligation, including the **Actuarially Required Contribution (ARC)** should be fully disclosed to the citizens of this community. Because the City has ultimate responsibility for the numbers that appear in its financial

statements, **the City will hire its own outside pension actuary to ensure that the ARC listed on the City's financial statements is in accordance with GASB principles.**

In addition, Mayor Sanders believes that it is critical that the taxpayers have a judicial determination on the legality of the pension benefits that came as a result of MPI and MPII.

Deferred Maintenance & Infrastructure Improvements

The Mayor will dedicate at least \$20 million to deferred maintenance in his FY07 budget, more than other budgets in recent memory. In addition, the deferred maintenance list is being entirely updated so that a more precise number can be known and considered for future years. These are two important starts to addressing a problem that has languished for years.

Increased Reserves

Over the course of the next two fiscal years, **the Mayor intends to dedicate at least \$32.3 million to the City's reserves, bringing reserves from \$33.4 million currently to \$65.8 million in FY08.**

This will increase reserves as a percentage of the budget from 3.73% currently to 5.85% in FY07 and 6.62% in FY08.

Increased reserves will decrease the City's cost of borrowing once we are able to access the public markets and be well received by bond rating firms.

Access to Public Financial Markets

Re-accessing the public markets later this calendar year is one of the Mayor's top priorities. The City has an enormous back-up of projects that must get underway soon.

In order to achieve this end, the Mayor is shepherding the investigations toward their conclusion. The audits will soon follow. The City will then once again have access to capital at lower rates than those offered by private placements.

The Mayor also intends to institute a wide and comprehensive array of remediation measures as part of a new set of internal financial controls.

Retiree Healthcare

Almost one month ago, Towers Perrin estimated the actuarial liability for Retiree Healthcare to be \$985 million this year. Cities and government agencies across the country face similar numbers. Although the City will make a "pay as you go" contribution of \$21 million this year, **the Mayor will include \$5 million as part of his FY07 budget to establish an interest-bearing special fund. This represents a start toward the establishment of a funded trust fund.**

The establishment of this fund does not convey a vested entitlement to post retiree healthcare benefits. Over the course of the next year, the administration will work with the City Attorney to determine the legal parameters for healthcare vesting.

Business Process Re-engineering

Over the course of the next three years, every City process and department will be professionally and thoughtfully examined with the express purpose of reducing costs and creating managerial efficiency. Instead of politically inspired or knee jerk solutions, the City is employing Business Process Re-engineering (BPR).

In order to budget most conservatively, there are no savings budgeted as a result of BPR. However, **the City expects to eliminate 500 positions in FY07 as a result of BPR.** (In addition, the Mayor has ended the practice of supplemental positions.)

Managed Competition

San Diego City voters will consider the Mayor's historic managed competition proposal in November. **The managed competition program will be part of the Mayor's holistic proposal to financially reform City government and bring managerial efficiency to the City's bureaucratic practices.**

Managed Competition is a formal mechanism whereby public employees compete with the private sector to perform City services. The goals of managed competition include:

- Improving services while lowering costs;
- Creating a return-on-investment for the taxpayers;
- Reinvesting savings into high priority programs.

As a result of the BPR process, the Mayor expects that City employees will be able to provide services better, cheaper and faster and thus win the competitions.

New Pension System for New Employees

As a percentage of pay, the current benefits currently exceed 50%. This is clearly unsustainable. **The Mayor intends to use FY07 as a planning year to conceive of a new pension plan for new employees.**

New Set of Internal Financial Controls

Mayor Sanders will bring significant reforms to the way in which the City handles its internal financial controls. **The Mayor has directed City CFO Jay Goldstone to examine all controls with an eye toward instituting "best practices," some of which will come as a result of remediation measures.**

city comptroller

General Fund
Revenue Status Report
For the Period Ending February 24, 2006

Percentage of Year Completed: 65.5%

	FY06 Adopted Budget	FY06 Revised Budget	Year to Date Revenue Received	% of Budget Received	Over/(Under) Budget
Property Taxes	290,444,405	302,444,405	177,100,048	58.6%	(125,344,357)
Safety Sales Taxes	6,087,926	6,087,926	4,788,074	78.6%	(1,299,852)
General Fund Sales Taxes	144,142,130	144,324,089	75,611,091	52.4%	(68,712,998)
General Fund TOT	67,337,368	67,337,368	34,703,043	51.5%	(32,634,325)
Property Transfer Taxes	14,906,437	14,906,437	7,239,447	48.6%	(7,666,990)
Licenses & Permits					
Business Taxes	7,337,000	7,337,000	4,763,522	64.9%	(2,573,478)
Rental Unit Taxes	6,397,000	6,397,000	4,510,089	70.5%	(1,886,911)
Parking Meters	6,504,315	6,504,315	3,985,514	61.3%	(2,518,801)
Refuse Collector Business Taxes	865,000	865,000	1,096,848	126.8%	231,848
Other Misc Licenses & Permits	7,654,316	7,654,316	5,485,381	71.7%	(2,168,935)
Total Licenses & Permits	28,757,631	28,757,631	19,841,354	69.0%	(8,916,277)
Fines & Forfeitures					
Parking Citations	17,171,472	17,171,472	7,071,718	41.2%	(10,099,754)
Municipal Court	7,613,809	7,613,809	4,683,065	61.5%	(2,930,744)
Negligent Impound	2,850,000	2,850,000	1,737,803	61.0%	(1,112,197)
Other Misc Fines & Forfeitures	4,490,842	4,490,842	1,878,876	41.8%	(2,611,966)
Total Fines & Forfeitures	32,126,123	32,126,123	15,371,462	47.8%	(16,754,661)
Interest & Dividends	1,200,223	1,200,223	2,445,072	203.7%	1,244,849
Franchises					
SDG&E	38,072,712	38,072,712	8,943,302	23.5%	(29,129,410)
CATV	15,022,164	15,022,164	3,858,554	25.7%	(11,163,610)
Refuse Collection	10,300,000	10,300,000	5,195,446	50.4%	(5,104,554)
Other Franchises	95,000	95,000	228,433	240.5%	133,433
Total Franchises	63,489,876	63,489,876	18,225,735	28.7%	(45,264,141)
Rents and Concessions					
Mission Bay	22,888,355	22,888,355	15,467,007	67.6%	(7,421,348)
Pueblo Lands	3,038,731	3,038,731	1,729,802	56.9%	(1,308,929)
Other Rents and Concessions	4,497,173	4,497,173	2,224,978	49.5%	(2,272,195)
Total Rents and Concessions	30,424,259	30,424,259	19,421,787	63.8%	(11,002,472)
Motor Vehicle License Fees	9,516,832	9,516,832	5,462,913	57.4%	(4,053,919)
Revenues from Other Agencies	6,016,058	6,016,058	2,934,739	48.8%	(3,081,319)
Charges for Current Services	27,627,929	27,627,929	23,998,238	86.9%	(3,629,691)
Services and Transfers	140,496,822	131,236,012	71,500,235	54.5%	(59,735,777)
Miscellaneous Revenues	2,345,893	2,346,843	1,764,089	75.2%	(582,754)
TOTAL GENERAL FUND	864,919,912	867,842,011	480,407,327	55.4%	(387,434,684)

city auditor & comptroller

General Fund Departments
Statement of Appropriations, Expenditures and Encumbrances
For the Period Ending February 24, 2006

Percentage of Year Completed **65.5%**

	FY06 Adopted Budget	FY06 Revised Budget	Year to Date Total Expended & Encumbered	% of Budget Expended & Encumbered	Remaining Budget
PUBLIC SERVICES					
Public Safety					
Paramedics (Citywide)	2,152,184	2,152,184	365,699	17.0%	1,786,485
Police	336,477,474	336,446,925	224,148,812	66.6%	112,298,113
San Diego Fire-Rescue	160,337,603	161,001,224	111,288,809	69.1%	49,712,415
Total Public Safety	498,967,261	499,600,333	335,803,320	67.2%	163,797,013
Office of Homeland Security	589,284	589,284	800,604	135.9%	(211,320)
Park and Recreation	79,030,543	78,821,099	51,151,922	64.9%	27,669,177
Sanitation and Health					
Animal Regulation (Citywide)	5,290,810	5,290,810	5,290,810	100.0%	-
Environmental Services	36,368,960	36,363,311	24,671,201	67.8%	11,692,110
Mt. Hope Cemetery (Park and Recreation)	1,467,813	1,467,813	1,020,203	69.5%	447,610
Stormwater Pollution Prevention (MWWDD)	2,748,385	2,745,560	2,071,235	75.4%	674,325
Total Sanitation and Health	45,875,968	45,867,494	33,053,449	72.1%	12,814,045
Transportation (General Services)	8,167,602	8,164,777	6,164,691	75.5%	2,000,086
Library	36,647,886	36,579,385	23,705,728	64.8%	12,873,657
Neighborhood Services					
Community and Economic Development	3,792,711	3,934,969	4,317,448	109.7%	(382,479)
Family Justice Center	556,964	556,964	215,714	38.7%	341,250
Neighborhood Code Compliance	5,319,473	5,297,916	4,354,012	82.2%	943,904
Planning	6,846,564	6,814,229	4,466,156	65.5%	2,348,073
Small Business Enhancement-Citywide (Citywide)	550,004	550,004	444,735	80.9%	105,269
Small Business Enhancement-Districts (Citywide)	561,007	561,007	561,007	100.0%	-
Total Neighborhood Services	17,626,723	17,715,089	14,359,072	81.1%	3,356,017
TOTAL PUBLIC SERVICES	686,905,267	687,337,461	465,038,786	67.7%	222,298,675
OPERATIONS SUPPORT					
City Attorney	34,182,145	34,182,145	22,618,721	66.2%	11,563,424
Citywide Operations Support	39,790,435	51,787,844	32,042,071	61.9%	19,745,773
Engineering and Capital Projects	31,771,442	31,749,048	22,035,074	69.4%	9,713,974
General Services	14,717,974	14,771,290	11,542,568	78.1%	3,228,722
Real Estate Assets	3,988,523	3,974,823	2,551,441	64.2%	1,423,382
TOTAL OPERATIONS SUPPORT	124,450,519	136,465,150	90,789,875	66.5%	45,675,275
INTERNAL SUPPORT/MANAGEMENT					
Citizens Assistance	353,134	353,134	229,526	65.0%	123,608
City Auditor and Comptroller	10,273,502	10,273,502	6,699,700	65.2%	3,573,802
City Clerk	3,762,362	3,762,362	2,212,193	58.8%	1,550,169
City Council District 1	850,000	850,000	553,617	65.1%	296,383
City Council District 2	850,000	850,000	521,271	61.3%	328,729
City Council District 3	850,000	850,000	544,246	64.0%	305,754
City Council District 4	850,000	850,000	597,504	70.3%	252,496
City Council District 5	850,000	850,000	502,682	59.1%	347,318
City Council District 6	850,000	850,000	531,277	62.5%	318,723
City Council District 7	850,000	850,000	655,959	77.2%	194,041
City Council District 8	850,000	850,000	466,590	54.9%	383,410
City Manager	470,297	470,297	879,845	187.1%	(409,548)
Deputy City Manager	-	543,153	337,789	62.2%	205,364
City Treasurer	11,438,993	11,363,553	6,334,075	55.7%	5,029,478
Council Administration	946,328	930,285	735,186	79.0%	195,099
Equal Opportunity Contracting	2,453,858	2,453,858	1,565,860	63.8%	887,998
Ethics Commission	670,426	670,426	404,967	60.4%	265,459
Financial Management	4,369,276	4,334,122	3,027,946	69.9%	1,306,176
Governmental Relations	749,479	749,479	578,437	77.2%	171,042
Human Resources	1,331,687	1,324,837	1,062,839	80.2%	261,998
Mayor	2,507,141	2,507,141	1,575,994	62.9%	931,147
Personnel	5,908,910	5,908,910	4,104,883	69.5%	1,804,027
Public and Media Affairs	215,265	215,265	96,663	44.9%	118,602
Special Projects	1,313,468	1,310,043	724,333	55.3%	585,710
TOTAL INTERNAL SUPPORT/MANAGEMENT	53,564,126	53,970,367	34,943,382	64.7%	19,026,985
TOTAL GENERAL FUND	864,919,912	877,772,978	590,772,043	67.3%	287,000,935